United States General Accounting Office

GAO

Report to the Chairman, Permanent Subcommittee on Investigations, Committee on Governmental Affairs, U.S. Senate

July 1992

STAFFORD STUDENT LOANS

Prompt Payment of Origination Fees Could Reduce Costs

GAO/HRD-92-61

GAO United States
General Accounting Office
Washington, D.C. 20548

Jul 92

Human Resources Division

Stafford Student Loans: Prompt Payment of Origination Fees Could Reduce Costs

B-241438

July 24, 1992

The Honorable Sam Nunn
Chairman, Permanent Subcommittee
on Investigations
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report, prepared at your request, discusses the government's collection of origination fees paid on Stafford student loans. We are making recommendations to the Congress to help the Department of Education collect origination fees promptly.

We are sending copies of the report to the Secretary of Education; the Director, Office of Management and Budget; appropriate congressional committees; and other interested parties.

This report was prepared under the direction of Linda G. Morra, Director, Education and Employment Issues, who may be reached on (202) 512-7014 if you or your staff have any questions. Other major contributors are listed in appendix IV.

Sincerely yours,

Lawrence H. Thompson

Lawrence H. Thompson
Assistant Comptroller General

Executive Summary

Purpose

Borrowers paid an estimated $427 million in origination fees on Stafford loans they received in fiscal year 1990. These fees help offset the federal government's multibillion-dollar cost of subsidizing the Stafford Student Loan Program. Lenders deduct the fees from students' loan disbursements, and in most cases the Department of Education deducts them from its payments to lenders. Concerned that the fees were not always promptly received or reported, the Chairman of the Senate Governmental Affairs' Permanent Subcommittee on Investigations asked GAO to determine (1) the extent of and reasons for the Department's delayed receipt of origination fees and (2) actions needed to facilitate the prompt receipt of the fees.

Background

The Stafford loan program, the largest federal student aid program, committed over $9.7 billion of loans to student-borrowers in fiscal year 1990. About 10,000 state and private lenders make loans to students and generally receive quarterly interest subsidies from the Department. In fiscal year 1990, federal interest subsidies totaled about $2.9 billion. To help offset these costs, the Department charges lenders a 5-percent fee for new Stafford loans, and they in turn charge borrowers a 5-percent fee. The Department usually receives this fee by offsetting it against lenders' quarterly interest subsidy payments. State-designated guaranty agencies reimburse lenders when borrowers default. To help cover their costs, nearly all of these agencies charge borrowers an insurance premium (guarantee fee) of up to 3 percent of the amount borrowed.

The Department relies heavily on lenders to report that they have collected the origination fees and to maintain supporting loan, interest subsidy, and origination fee payment records. Thus, the Department usually does not know what fees are due until lenders report them. Until the Department receives the fees, it must in effect borrow the funds and pay interest on them.

Amendments to the Higher Education Act (P.L. 97-35 and P.L. 99-498) require the Department to collect origination fees by deducting them from quarterly interest subsidy payments to lenders. But some lenders sell Stafford loans soon after making them and do not bill for interest subsidies. Nonetheless, lenders generally remain liable for payment of origination fees. The Department instructs them to report the amount of origination fees due at the end of the quarter. The Department collects fees that cannot be offset by requesting lenders to remit them and assessing interest penalties on fees unpaid 210 days after they were reported.

Results in Brief

The government is incurring unnecessary interest costs associated with the collection of origination fees because it does not receive fees from some lenders, it receives them from other lenders long after they are collected from students, and the Department's interest subsidy offset and other collection practices discourage prompt remittances. GAO estimated that in fiscal year 1989, the government incurred additional interest costs of $10 million because the Department received origination fees about 131 days after lenders collected them from student-borrowers. Fees on other federally supported loans must be remitted to the government within 15 days of their collection from borrowers, or interest penalties are imposed. If Stafford lenders were subject to a similar requirement, the government would save $10 million annually. Moreover, GAO estimated that the government would receive a one-time accelerated receipt of about $100 million of origination fees at the time the collection practice changes.

Rather than collecting most loan origination fees as offsets to quarterly interest subsidy billings, the Department could be given the authority to collect fees from lenders within 15 days of loan disbursement. Some lenders do not submit quarterly interest billings because, for example, the Department does not owe them subsidy payments for the quarter. Many lenders fail to promptly report the fees they collect. To minimize the administrative costs and possible burden on lenders of directly paying origination fees to the Department, lenders could be required to use a Treasury Department system for collections that other federal agencies use. Treasury's network of lock boxes[1] enables lenders to deposit fees daily at a minimal cost to government agencies.

The Department, in part because it relies on lenders to maintain records on individual loans, lacks sufficient data to determine when lenders disburse loans or the origination fees they owe. It is normally unaware of fees due until lenders report them. The Department is planning a new student loan data system that when implemented in 1993, should enable it to determine the amount of origination fees due. Until the Department is given authority to collect origination fees and its new data system is fully implemented, it should work with the guaranty agencies to ensure that lenders remit the fees they owe within 15 days and impose penalties on later remittances.

[1]Payments are mailed or electronically transferred to banks for deposit in a Treasury account for the responsible federal agency or department.

Principal Findings

The Department Is Not Receiving Origination Fees Promptly

Lenders generally pay origination fees to the Department by having the fees offset their regular quarterly subsidy billing. On average, the Department receives the fees 131 days after loan disbursement. If fees owed by a lender exceed interest subsidies, the remaining fees that are not offset are carried over and deducted against subsidy payments due in subsequent quarters. However, some lenders' billings are not large enough to offset origination fees within a reasonable time, so the Department asks lenders to submit them. In addition, some lenders owing origination fees do not regularly submit quarterly bills requesting payment for interest subsidies. When lenders do not bill for interest subsidies, the Department instructs them to report that they owe fees so that it can collect them through either later offset or direct payment. When origination fees cannot be offset, the Department asks lenders to submit them. Lenders can hold the fees for up to 210 days after the fees were reported before the Department assesses interest. Interest accrues on the unpaid amounts of fees beginning on the 181st day after the fees were reported.

Department records show that as of December 1990, about 800 lenders owed the Department about $12 million, which, according to Department officials, consisted almost entirely of origination fees. Of the lenders, 79 had collected the fees from borrowers at least 4 years earlier, 135 held fees collected over 2 years earlier, and 247 held fees collected at least 6 months earlier.

Department audits and reviews of lenders often identify unpaid origination fees. In 1989, for example, a Department review resulted in the collection of about $13 million of fees one lender had accumulated. In fiscal year 1990, the Department identified unpaid fees during 53 reviews of lenders. GAO identified 13 lenders—among 238 in a stratified sample of lenders—that held $156,302 of unreported fees collected from students at least 2 years earlier.

Savings Would Result From the Prompt Collection of Origination Fees

Based on 1989 data, GAO estimates that the government could save $10 million annually if lenders were required to remit origination fees within 15 days of loan disbursement or incur interest penalties. The Department received these fees an average of about 131 days after lenders collected them from student-borrowers and incurred related interest costs

of $11 million. Payment of fees in an average of 15 days would have reduced the government's interest costs to $1 million. Other federal agencies, such as the Departments of Veterans Affairs and of Housing and Urban Development, require similar fees on their federally backed loans to be collected within 15 days of their receipt by lenders, or penalties are assessed. Both departments use the Treasury's lock-box network to centralize and speed up the collection of fees for the loans.

Requiring the fees to be paid to the Department within 15 days of loan disbursement would increase fee receipts in the first year. For example, if the Department had received the fees 15 days after loan disbursement, it would have received an additional $101 million of fees in fiscal year 1989—the year that borrowers paid them—rather than in the next fiscal year.

Interim Step Needed While the National Data System Is Being Developed

The Congress has authorized the Department to develop a student loan data system, which should include data that the Department could use to determine origination fees lenders owe. With the new system and legislative authority to collect origination fees directly, the government could require lenders to pay fees as they are collected rather than relying on lenders to report the fees and offset them on quarterly interest billings. However, the new system will not be implemented until 1993.

While the Department develops the system it needs to support the direct payment of origination fees, the Secretary should work with the guaranty agencies to ensure that lenders pay the fees they owe within 15 days. All but one of the agencies have existing systems to collect from lenders insurance fees they charge student-borrowers. The Department could use these systems as an interim measure to help ensure prompt collection of origination fees.

Recommendations to the Congress

To enable the Secretary of Education to collect origination fees promptly, the Congress should

- repeal the provision in section 438(c)(1) of the Higher Education Act, as amended, that requires the Department to collect origination fees by offsetting interest subsidy payments to lenders;
- require lenders to pay the 5-percent loan origination fee for every federally subsidized Stafford student loan disbursed in a manner that will provide

for the government's receipt of the fees within 15 days of loan disbursement;

- authorize the Secretary to assess interest penalties on the late payment of origination fees; and
- require the Secretary, while the National Data System is being developed, to work with the guaranty agencies to ensure the government's timely receipt of origination fees.

Agency Comments

The Department agreed that the process to identify and collect origination fees needs improvement, but said that collecting fees within 15 days would be too costly and complex. It offered alternative procedures for collecting fees in 30 to 45 days. GAO continues to believe in the need for its recommended actions. (See pp. 24 and 25 and app. III.)

Contents

Abbreviations

ACH	Automated Clearing House
FITCO	First Independent Trust Company
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
VA	Department of Veterans Affairs

Introduction

The cost of federal interest subsidies for guaranteed student loans has risen from about $637 million in fiscal year 1979 to between $2 billion and $3 billion annually in the last several years. To offset these increased costs, in 1981 the Congress amended the Higher Education Act of 1965 to require that the Department of Education collect a 5-percent origination fee on federally subsidized Stafford student loans.[1] The lenders that make these loans normally deduct these fees from the loan proceeds. The Department is required to collect the fees by offsetting them against interest subsidy payments to lenders. The Chairman of the Senate Governmental Affairs' Permanent Subcommittee on Investigations requested that we review the Department's practices for collecting origination fees. The Subcommittee is concerned about both the Department's ability to collect the fees and the time it takes the fees to be offset against lenders' interest subsidy payments.

About 10,000 lenders—such as banks, savings and loan associations, and credit unions—make and hold Stafford loans. During fiscal year 1990, they made 3.6 million Stafford loan commitments, totaling about $9.7 billion. Through state and private nonprofit guaranty agencies, lenders are insured (that is, guaranteed payment) if borrowers default.

In accordance with the Higher Education Act, the Department provides two types of interest subsidies on Stafford loans:

1. It pays students' interest costs until loan repayment begins. Borrowers are exempt from paying interest on their loans while they are in school and during statutory grace and deferment periods.[2] During these periods, the Department makes interest payments for the student.[3] These subsidies end when students become responsible for repaying their loans.

2. It makes special allowance payments to lenders throughout the life of the loan. The Department makes these payments when the student is in school and during grace and deferment periods, and continues to provide them while the student is repaying the loan. The subsidy raises the interest

[1]Stafford loans, formerly known as guaranteed student loans, are low-interest loans, which in nearly all cases are made to financially needy students eligible for federal interest subsidies. For loans made to first-time Stafford loan borrowers between March 1 and September 30, 1986, the origination fee was 5.5 percent in accordance with Gramm-Rudman-Hollings budget requirements.

[2]Borrowers generally pay no interest for a 6-month grace period after leaving school. Also, they may be exempt from paying interest during periods of deferment if, for example, they return to school, enter the armed services or the Peace Corps, or are unable to find full-time employment.

[3]The current interest rate for Stafford loans is 8 percent for the first 4 years of repayment and a variable rate capped at 10 percent thereafter.

received by lenders to near market rates. The formula for computing the subsidy has varied over the years. For loans made after November 15, 1986, the subsidy provides lenders revenue equal to at least the interest rate on 91-day Treasury bills plus 3.25 percent.

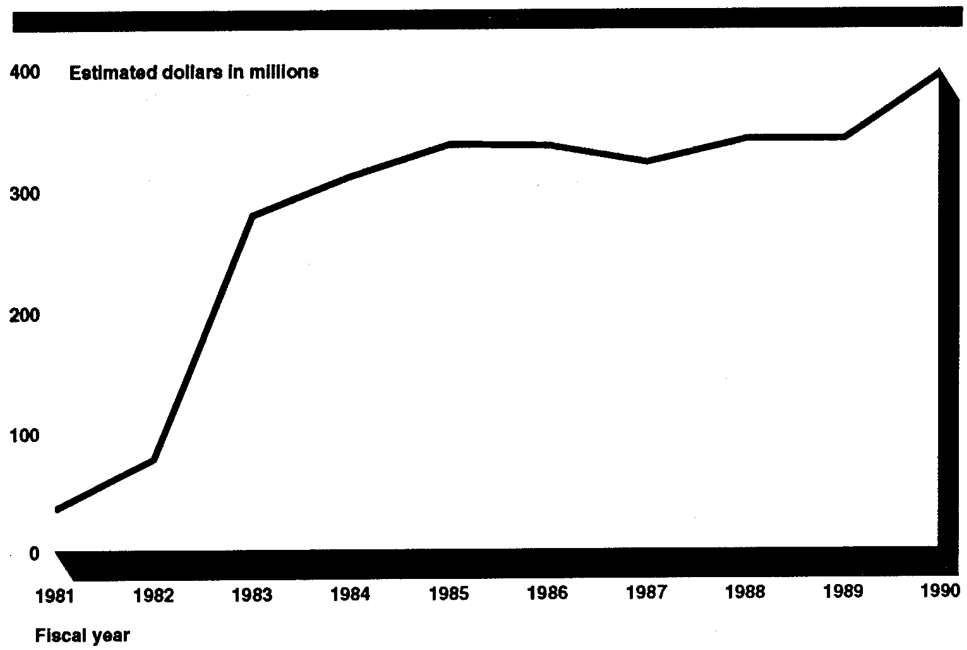
At September 30, 1990, over $44 billion in Stafford loans were outstanding; that is, they had not yet been repaid or gone into default. In fiscal year 1990, lenders received about $2.9 billion of federal interest subsidies for their Stafford loans.

Collecting Origination Fees

In response to rising federal interest subsidy costs for guaranteed student loans, the Omnibus Budget Reconciliation Act of 1981 generally required the Department to collect origination fees on new Stafford loans beginning in 1981.[4] As shown in figure 1.1, the Department reports that origination fee receipts have generally increased annually—from $77 million in fiscal year 1982, the first full year that fees were assessed, to $395 million in 1990. The Department reported that it received about $2.8 billion of origination fees from fiscal years 1981 through 1990. The receipt of these fees reduced the net cost of federal interest subsidies for Stafford student loans during the fiscal year 1983-90 period by 11 to 16 percent annually, depending in part on the volume of loans made and on Treasury bill interest rates.

[4]Origination fees are not collected on the other loans guaranteed under the Higher Education Act—Parent Loans for Undergraduate Students, Supplemental Loans for Students, and consolidated loans. Nor are they collected on Stafford loans that are not eligible for federal interest subsidies.

Figure 1.1: The Department's Receipts of Stafford Loan Origination Fees
(Fiscal Years 1981-90)



The Department instructs lenders to hold the fees until they submit bills for interest subsidies no sooner than the end of the quarter in which the loans were disbursed. Any time after the end of the quarter, lenders may request interest subsidy payments using Lender's Interest and Special Allowance Request and Report (ED Form 799). Using this form, lenders give the Department summary information about the status of their portfolio and the amounts of loans for which they are requesting subsidy payments. Lenders also use this form to report origination fees due for loans made during the quarter, even if they are not requesting subsidy payments.

If the Department finds errors in the billing forms, it may return them to lenders for correction. Otherwise, the Department processes them, calculates the amounts of interest subsidies owed, and pays the lender the amount of subsidies minus any origination fees due. Unless lenders submit an incorrect bill or the Department receives it more than 90 days after the end of the quarter, the Department pays the bills within 30 days after receipt or pays lenders interest on the amount due.

The Department, recognizing that some lenders' billings are not large enough to offset origination fees they had collected and owed the

government, also collects fees directly from lenders. Collecting these fees can sometimes be difficult because the Department depends on lenders to report that they hold such fees.

If origination fees that lenders owe are not submitted to the Department for 180 days—after two quarterly billing cycles—lenders are instructed to pay the fees by check within 30 days to avoid interest penalties on the balance owed. If lenders fail to pay their outstanding fees, the Department demands payment at once and states that action may be taken to collect the fees.

Objectives, Scope, and Methodology

Concerns about the Department's ability to collect origination fees that lenders collected from student-borrowers arose when the First Independent Trust Company (FITCO), a Stafford lender in California, went bankrupt holding about $5.5 million of origination fees due to the Department. This situation was dealt with in our report that was used during hearings on abuses in the Stafford program conducted by the Permanent Subcommittee on Investigations in September 1990.[5]

As agreed with the Subcommittee staff, we reviewed the Department's collection of origination fees to identify (1) the extent of and reasons for the Department's delayed receipt of origination fees and (2) actions needed to facilitate the prompt payment of these fees.

To accomplish these objectives, we analyzed two representative samples—a sample of Stafford loans and a sample of lenders that obtained guarantees for Stafford loans. The first was a statistically random sample of 200 out of about 3.4 million loans guaranteed in fiscal year 1989. We used the loan sample to determine how long lenders hold fees before the Department collects them. The second was a stratified sample of 238 of the 8,945 lenders that had loans guaranteed during the quarter ending September 1988.[6] We used the lender sample to determine whether lenders were reporting and paying origination fees.

We gathered information about origination fees for lenders and loans in the samples by using questionnaires and examining Department records

[5]Student Loan Lenders: Information on the Activities of the First Independent Trust Company (GAO/HRD-90-183FS, Sept. 25, 1990).

[6]Each lender participating in the Stafford loan program has at least one account with the Department that it uses to bill for interest subsidies. Many lenders, including several in our sample, have two or more accounts. For purposes of our analyses, we refer to each lender account as a lender.

and lender billing records. We used standard statistical techniques to analyze the results of responses received from the questionnaires. To help confirm the accuracy of lenders' responses to our questionnaires, we examined lender billing history reports obtained at the Department and contacted lenders to resolve inconsistencies. We also interviewed representatives from the Department, about 30 guaranty agencies, and over 200 lenders and loan servicing firms. To gather information about the collection of loan origination fees on other federally backed loans, we interviewed officials from the Departments of Housing and Urban Development (HUD), Veterans Affairs (VA), and the Treasury.

The Department's data systems lacked sufficient information for us to verify that it received origination fees for Stafford loans disbursed. The Department plans to include in the National Student Loan Data System (which is scheduled to be implemented in 1993) data needed to help determine what origination fees are due. See appendix I for additional details concerning our methodology.

Our review was conducted between May 1990 and August 1991 in accordance with generally accepted government auditing standards.

Savings Could Result From the Prompt Collection of Origination Fees

The Department of Education could save an estimated $10 million annually by collecting origination fees more promptly from lenders. Such action could also result in a one-time increase in origination fee receipts during the first year.

When lenders regularly submit quarterly interest subsidy bills sufficient to enable the Department to offset origination fees due, the government is not receiving the money as fast as it does for similar fees on other federally backed loans. We estimate that for Stafford loans, about 131 days elapse between the time lenders collect origination fees from borrowers and the time that the Department receives them. In contrast, other federal agencies require fees to be paid on similar federally backed loans in much less time—often, within 15 days—and assess interest penalties if fees are late.

While some lenders are late in paying origination fees to the Department, others failed to report or pay the fees due. We estimated that about 6 percent of the lenders had not paid all fees due, and that an additional 5 percent could not document that they paid fees due. For example, for 13 of 238 lenders we sampled, $156,300 in fees they collected from student-borrowers had not been paid to the Department over 2 years after loans were disbursed.

The Congress intended origination fees to be used to reduce the cost of administering the Stafford program. However, until lenders pay these fees, the government does not have use of these funds and, in effect, must borrow funds and pay interest on them. For loans guaranteed in fiscal year 1989, the government incurred interest of about $11 million. We estimated that this cost would have been about $1 million if the Department had received origination fees within an average of 15 days after lenders collected them, as other federal agencies do for their federally backed loans.

Some Lenders Do Not Pay Origination Fees

Substantial amounts of unpaid origination fees are being held by some lenders, sometimes years after student borrowers paid them, because lenders are not reporting or paying them—through offset—to the Department. Based on our sample of lenders, we estimate that 531 lenders (5.9 percent of those with loan guarantees) held for at least 2 years some of the origination fees they collected in the second half of 1988. This estimate is based on responses from 13 of the 238 lenders in our stratified sample that had loans guaranteed in the quarter ending September 30,

1988. These lenders acknowledged that as of January 1, 1991, they had not reported or paid all the origination fees they collected from borrowers in the second half of 1988. The unpaid fees for loans the 13 lenders made totaled $156,302 for the quarter. One of these lenders had accumulated $271,203 of unpaid fees over 10 quarters. The Department said it received some of these previously unreported fees after the lenders responded to our questionnaire.

In addition, for an estimated 483 lenders (5.4 percent), neither the Department nor the lenders could provide evidence that lenders had remitted origination fees to the Department. Some lenders did not respond to our questionnaire, and others said that data were unavailable for the loans with unreported fees. For more information on the results of our analysis, see table II.2 in appendix II.

Audits and Reviews Show Some Fees Are Not Paid

Audits of lenders by the Department and guaranty agencies identified many instances of unpaid fees. For example, in 1988 the Department reported that the Bank of Horton, Kansas, which was a large student loan lender in the late 1980s, had not submitted billings for six quarters. During this time, it had accumulated unpaid origination fees of about $4.4 million. At the Department's request, Horton paid the fees.

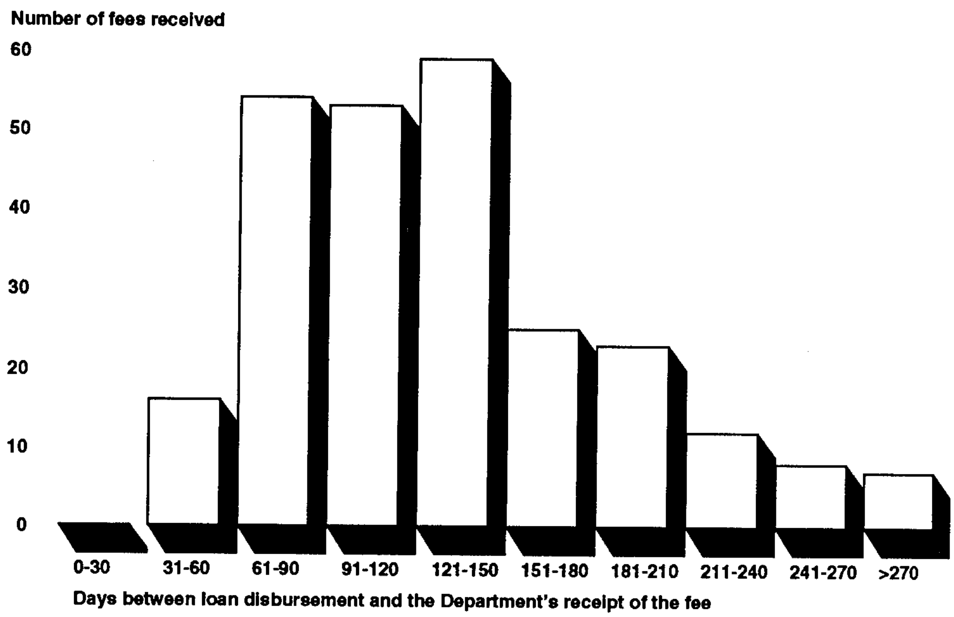
In a 1988 audit, the California guaranty agency reported that FITCO failed to file quarterly billings and pay the Department its origination fees. FITCO accumulated fees because it often sold its Stafford loans to other lenders soon after making them (typically within a few days) and collected greater amounts of origination fees than it earned in interest subsidies. After the audit, FITCO paid about $13 million of accumulated origination fees. As of May 19, 1989, when the California State Banking Commission assumed control of an insolvent FITCO, the lender had accumulated an additional $5.5 million in origination fees. In January 1990, the Department and the banking commission agreed to settle this debt for $4.4 million. The Department wrote off the remaining unpaid fees.

Reviews by the Department continue to identify lenders failing to pay origination fees. In 53 of 648 lender reviews completed in fiscal year 1990, the Department identified and collected unpaid origination fees totaling $596,500.

Origination Fees Received Months After Loans Disbursed

In our random sample of 200 Stafford loans guaranteed in fiscal year 1989, we found that lenders held the origination fees between 35 and 326 days after loan disbursement before directly paying them to, or having them offset by, the Department. As shown in figure 2.1, the Department received no fees within 30 days of disbursement, received some fees within 6 weeks, but received most more than 120 days after disbursement.

Figure 2.1: When the Department Received Origination Fees for a Sample of 200 Stafford Loans



Note: Based on usable data obtained for 163 of the 200 Stafford loans in the sample.

We estimate that the Department receives origination fees an average of 131 days after lenders collect them from student borrowers.[1]

Procedures Allow for Delays in Collecting Loan Fees

The Department's practice for collecting Stafford loan origination fees allows some lenders to hold the fees without accruing interest charges for a year or more after student-borrowers receive their loans. For example, a

[1]Based on results from the random sample of loans, we are 95-percent confident that the Department received origination fees on average between 119 and 143 days after disbursement. This and other estimates of the average duration of steps in the billing process are based on usable data obtained from 163 of the 200 loans in the sample.

lender can submit a quarterly bill reporting origination fees anytime after March 30 for loans disbursed during the previous quarter (as early as January). To submit the bill on a timely basis, according to the Department's requirements, the lender could report the fees on a billing as late as June 30. If the lender does not pay the fees due—by either having them offset from their interest subsidy payments or making payment to the Department—the Department could assess interest charges on unpaid fees on or after January 31 of the following year (210 days after bill processing on the previous June 30).[2] This example assumes that the lender submits an interest subsidy billing at the end of the quarter following loan disbursement. However, many lenders wait to submit bills for several quarters after the loan disbursement. For example, based on our stratified sample of lenders, we estimate that 435 lenders that owed the Department origination fees collected during the quarter ending September 30, 1988, submitted bills reporting those fees more than 180 days after the end of the quarter.[3]

Even when the Department asks lenders that continue to hold the loans they made to pay origination fees, the earliest this occurs is 180 days after lenders report the loans' disbursement. However, this practice has broken down of late. Problems in implementing a new computer billing system, Department officials said, have contributed to inconsistency in sending letters to lenders requesting payment of fees.

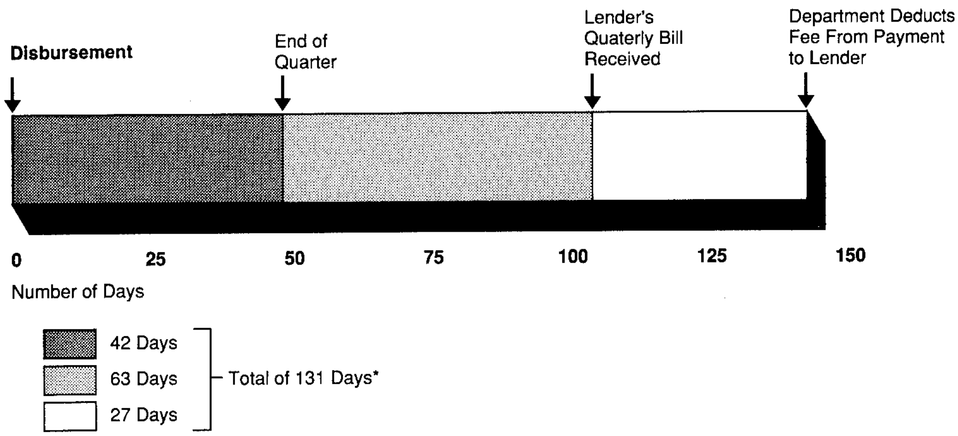
Interest Subsidy Billing Process Slows Collection of Fees

The Department's receipt of origination fees is slowed by its system for billing and paying interest subsidies. Beyond requiring that the Department collect origination fees by deducting them from quarterly interest subsidy payments to lenders, the law does not provide other mechanisms for lenders to report fees or for the Department to collect them. Although lenders collect fees at the time borrowers receive their Stafford loans, the Department does not collect the fees until after lenders submit their billing for interest subsidy payments. (See fig. 2.2.)

[2] If the lender fails to pay the outstanding fees by the 210th day after bill processing, the Department assesses interest beginning the 181st day after processing the lender's report of the fees.

[3] To ensure that lenders that owe origination fees eventually submit quarterly bills, the Department drops some lenders from eligibility for federal interest subsidies. If a lender fails to submit a quarterly bill for 6 consecutive quarters, the Department notifies the lender that its account number will be deactivated unless the Department hears from it within 60 days. At that time the Department requests that the lender pay any origination fees that are due. The Department deactivates lenders that fail to respond, though it can reactivate them if they contact the Department later.

Figure 2.2: Average Time for the Department to Collect Origination Fees From Lenders



* Due to rounding the total is not equal to the sum of the averages.

Note: These averages are based on usable data obtained for 163 loans from our sample of 200 Stafford loans.

One reason for the Department's slow receipt of origination fees is that it will not accept lenders' bills until the end of the quarter for which they are submitted. As a result, lenders hold fees at least for the period between loan disbursement and the end of a quarter. As illustrated in figure 2.2, our analysis indicates that this time averaged about 42 days.

Also, while lenders may submit bills requesting interest subsidy payment at any time after the end of the quarter, our sample shows that most lenders submit bills reporting origination fees more than 6 weeks after loan disbursement. For loans in our sample, the Department received lenders' bills an average of 63 days after the end of the quarter. The Department received about one-third of the bills within 30 days of the end of the quarter and nine bills more than 180 days afterward. Delays in the Department's receipt of bills resulted because, for example, the Department rejected lenders' billings that were incompletely or incorrectly prepared. At the time of our review, origination fees for two loans in our sample remained unpaid because the Department had rejected the lenders' billings.

Finally, the Department records the receipt of origination fees an average of 27 days after it receives lenders' quarterly billings. Sometimes the

amount of subsidies to be paid lenders for a quarter is too small to offset fees. For example, during the quarter ending March 1991, the Department processed 1,200 interest subsidy billings that did not result in payments to lenders (about 12 percent of bills processed). If the amount of fees owed by a lender exceeds interest subsidies due, the law provides for the Department to deduct the remaining fees from interest subsidies in subsequent quarters. However, according to staff in the Department's Office of General Counsel, the Department also has authority under the Federal Claims Collections Act, as amended (P.L. 97-365), to collect these fees by check from the lenders. In fiscal year 1990, for example, the Department received direct payments of about $8 million for fees that were not offset.

Other Agencies Collect Fees on Guaranteed Loans More Promptly

The Department receives origination fees on Stafford loans far less promptly than other federal agencies receive similar fees on their federally backed guaranteed loans. We compared the Department's collection of fees with the guaranty agencies' collection of insurance premiums (fees) charged to Stafford loan borrowers. We also compared the Department's fee collection practices with those of HUD and VA in collecting loan guarantee fees on federally backed home loans.

In addition to origination fees charged on Stafford loans, lenders also may collect an insurance premium from borrowers at the time of loan disbursement. Charging a premium is optional for guaranty agencies. The agencies may charge student-borrowers a premium of up to 3 percent of the loan amount to help offset their cost of administering the program. All agencies except one were charging an insurance premium as of May 31, 1992. Lenders were paying the premiums directly to the guaranty agency. Several guaranty agencies bill lenders monthly or semimonthly for insurance premiums collected, and one agency requires lenders to pay the fee within 15 days of disbursement.

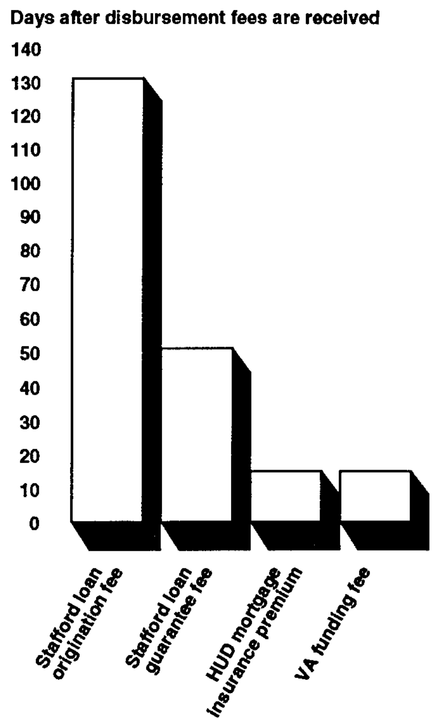
In our sample of 200 Stafford loans, guaranty agencies collected insurance premiums from lenders an average of 51 days after loan disbursement.[4] This is less than half the time we estimate the Department takes to receive origination fees.

Both VA and HUD impose fees for guaranteed home loans similar to the fee the guaranty agencies charge Stafford loan borrowers. As shown in

[4]Based on results from the random sample of 200 loans, we are 95-percent confident that guaranty agencies received guarantee fees from lenders on average between 43 and 60 days after disbursement. This estimate is based on usable data obtained from 157 loans.

figure 2.3, VA requires lenders to remit funding fees within 15 days of loan closing, and HUD has the same requirement for lenders remitting mortgage insurance premiums. Both VA and HUD also charge a penalty or late fee of 4 percent of the funding fee or insurance premium and assess additional interest charges for such fees submitted more than 30 days after closing.

Figure 2.3: Comparing Receipt of Stafford Loan Fees to HUD and VA Standards for Similar Loan Fees



Note: Figures shown for Stafford loans are averages; figures shown for HUD and VA are requirements.

The HUD and VA practices illustrate that lenders can pay fees on guaranteed loans to government agencies within strict time frames. For example, a sample of lenders' mortgage insurance premium payments indicates that HUD received its premiums—on average—between 7 and 14 days after loans closed. In addition, lenders pay funding fees in an average of 8 days after loan closing, that is, at the time of loan disbursement, according to a

VA official. Less than 2 percent of funding fees submitted to VA in March 1991 resulted in late penalties to lenders.

Savings Could Result From Prompt Collection of Origination Fees

If lenders were required to pay the Department the origination fees they collect within 15 days of loan disbursement, we estimate that the government's interest costs could be reduced by about $10 million annually. In addition, if lenders had paid the Department the origination fees within 15 days of receipt, fee receipts would increase $101 million in the first year. This would occur because, as shown in figure 2.1, it generally takes several weeks for the Department to receive origination fees from lenders. Had a 15-day payment requirement been in effect in fiscal year 1989, the Department could have received an estimated $101 million of fees for loans disbursed in the latter part of fiscal year 1989 in that year rather than in fiscal year 1990.

Administrative Cost Considerations

Collecting origination fees directly from lenders would result in some unknown additional administrative expense for both lenders and the Department, but current collection technologies and services could minimize this burden. A Department official said requiring lenders to pay fees directly to the government could involve expensive system modifications and require additional staff to process a large volume of checks and reconcile lenders' fee payments with their reports of amounts disbursed.

The Department of the Treasury, recognizing such concerns, works with federal agencies to develop collection systems that minimize the government's collection costs. One of these systems is the Treasury's lock-box network. The network is a series of commercial banks designated by Treasury that maintain accounts for government agencies for collecting and depositing funds. Lock-box banks can accept payments through either the mail (paper) or electronic transfers.

If the Department used mail lock boxes to collect origination fees from lenders, it could receive fees sooner and reduce the time needed to process checks. Rather than mailing checks to the Department, lenders could send their payments to a specified post office box from which the lock-box bank processes mail several times a day. According to a Treasury cash management official, origination fee funds could be wire-transferred to the Federal Reserve Bank and credited to the Treasury's account the day after deposit. The Department would generally receive confirmation of

the receipt of funds by the next day, reducing the time the Department takes to receive payments as well as its clerical costs.

Lenders could further accelerate payments by remitting origination fees electronically using the Automated Clearing House (ACH) lock-box network, eliminating the need for checks. Similar to paper remittances, the funds would be available to the Department 2 days after receipt by the lock-box bank, according to a Treasury official. In addition to increasing the availability of funds, lock-box systems can improve controls with automated reports. The lock-box bank would forward a record of transactions daily to the Department of Education.

Treasury can provide lock-box services at little or no cost to federal agencies. Both VA and HUD use mail and ACH lock-box services to collect fees from lenders on guaranteed home loans. In fiscal year 1990, VA collected about 16 percent of its funding fees through ACH and the remainder through paper lock boxes. HUD collects about 32 percent of its one-time mortgage insurance premiums through ACH. To further expedite payments, HUD is considering making ACH its sole method for lenders to submit premiums.

Interim Step Needed While the National Data System Is Being Developed

The Congress authorized the Department to establish the National Student Loan Data System to, in part, provide a centralized record of guaranteed student loans. The system is to help Department managers oversee and monitor the various student loan programs as well as help determine compliance with federal requirements. It should include the data necessary to assist the Department to determine loan origination fees that lenders owe it. With the system and legislative authority to collect origination fees directly from lenders, the Department could require lenders to pay fees as they are collected, rather than relying on fees to be reported and offset on quarterly interest billings. However, the new data system is not scheduled for implementation until the end of 1993.

While the Department develops the systems it needs to support the direct payment of origination fees, the Secretary should work with the guaranty agencies to ensure that lenders pay the fees they owe within 15 days. All but one of the agencies have existing systems to collect from lenders insurance fees they charge student-borrowers. The agencies also have systems to oversee and monitor lenders. The Department could use these systems as an interim measure to help ensure its prompt receipt of the fees.

Conclusions

The Department of Education's method for collecting Stafford student loan origination fees is inefficient. As provided by the Higher Education Act, lenders avoid paying the Department fees for several months or years, or perhaps altogether. While lenders retain origination fees, the government incurs interest costs—an estimated $11 million for loans guaranteed in fiscal year 1989. If lenders had been required to pay those fees to the Department within 15 days of loan disbursement or had interest penalties assessed, the interest cost would have fallen to $1 million, a savings of $10 million. Such a requirement would have also resulted in a $101 million increase in federal receipts in the fiscal year it went into effect.

The Department is aware that some origination fees remain unpaid and is trying to collect the late fees directly from lenders. But it has been only partly successful. In our view, the mechanism to collect origination fees specified in the Higher Education Act should be amended. Tying lenders' payments of origination fees to their requests for loan subsidies allows some lenders to hold the fees for extended periods. This practice impedes the ability of origination fees to lower the federal government's cost of the Stafford loan program.

The Higher Education Act should be amended to require that the Secretary of Education collect origination fees within 15 days of loan disbursement or assess penalties, as VA and HUD now require for loan fees they collect. With the new data system to be implemented in 1993, the Department should have the information it needs to determine the origination fees lenders owe it. Until this system is in operation, the Department should work with the guaranty agencies to collect the fees. The agencies have systems, used to collect their insurance premiums from lenders, that could be used by the Department to help ensure the timely collection of origination fees it is owed.

Recommendations to the Congress

We recommend that the Congress

- repeal the provision in section 438(c)(1) of the Higher Education Act, as amended, that requires the Department of Education to collect origination fees by offsetting interest subsidy payments to lenders;
- require lenders to pay the 5-percent loan origination fee for every federally subsidized Stafford student loan disbursed in a manner that will provide for the government's receipt of the fees within 15 days of loan disbursement;

- authorize the Secretary to assess interest penalties on the late payment of origination fees; and
- require the Secretary, while the National Student Loan Data System is being developed, to work with the guaranty agencies to ensure the government's timely receipt of origination fees.

Agency Comments and Our Evaluation

The Department, commenting on a draft of this report, agreed that the system for identifying and collecting loan origination fees needs further improvements. (See app. III.) It agreed that collecting origination fees through the legislatively required practice of lenders' offsetting them against interest subsidy payments should be repealed. But it believes that to have lenders pay the fees within 15 days through a system of lock boxes, as other agencies do, would be too costly and complex. The Department said it is changing its procedures to strengthen the loan fees collection process. It also suggested that if it and the guaranty agencies use existing monthly reporting and collection procedures, it would receive the fees within 30 to 45 days. The Department also agrees with the intent of our recommendation to work with the agencies until the National Student Loan Data System is developed. But it believes that the alterative procedure it suggests, which includes working with the agencies, would accomplish the same result.

We are encouraged by the Department's changes in procedures and agree that its suggested alternative process to collect loan fees within 30 to 45 days would be an improvement over the existing system, and is similar to our suggested use of guaranty agencies to help collect loan fees. Notwithstanding this, however, we continue to believe that the use of this process should be limited to the time it takes the Department to develop the national data system and implement a system to collect fees within 15 days.

We recognize that the guaranty agencies are in a good position to help identify fees due from lenders and to collect them for the government. But the Department would continue to lack the proper accountability for its receivables and would still have to wait at least 30 to 45 days to receive payment. This is two to three times longer than if the government received the fees within 15 days, as we recommend.

The Department believes that requiring lenders to pay fees within 15 days through a lock-box system would be too costly and complex. However, it provided no further information on the basis for its belief. As we discuss

on page 22, other agencies are successfully using lock-box systems to collect fees within 15 days.

Once the Congress authorizes the direct collection of origination fees, we agree that the Department should use the guaranty agencies' existing monthly reporting and collection procedures to collect loan fees. As we recommend, however, the use of these procedures should be on an interim basis until the national data system is implemented. While developing the data system, the Department could analyze the cost-effectiveness of various options for collecting loan fees within 15 days. Along with collecting fees directly from lenders using lock boxes, such options could include requiring the guaranty agencies to collect and forward loan origination fees to the Department within 15 days of loan disbursement.

Methodology

To study the Department of Education's collection of origination fees, we analyzed (1) a sample of 238 lenders and (2) a sample of 200 Stafford loans. We used the lender sample to determine whether active lenders reported and paid origination fees. The loan sample provided a basis to estimate (1) how long lenders hold origination fees, from loan disbursement until the Department receives the fees, (2) the associated interest cost, and (3) the potential cost savings that could result from prompter payment of the fees.

Sample of Lender Accounts

We selected the sample of lender accounts from the Stafford student loan data base—known as the tape dump—for September 30, 1989. This data base is a computerized record of outstanding Stafford loans the guaranty agencies provide to the Department after the end of each fiscal year. We identified 8,945 lenders that had loans guaranteed in the 3-month period ending September 30, 1988. To obtain a set of representative groups for analysis, we divided these accounts into seven mutually exclusive groups using the contents of a computerized record of quarterly billing forms, Lender's Interest and Special Allowance Request and Report (ED Form 799), processed between October 1, 1988, and December 31, 1989. The seven groups are as follows:

Group 1. Lenders that had most of their loans guaranteed by the Georgia Student Finance Commission. According to Department and Georgia agency officials, the Commission submitted quarterly bills for its lenders using its own, rather than the lenders', account numbers.

Group 2. Lender accounts for which the Department had not processed any report of origination fees between October 1, 1988, and December 31, 1989.

Group 3. Lender accounts for which the Department had not processed a request for special allowance payments for the second half of 1988.

Group 4. Lender accounts for which the Department had not processed a request for special allowance payments for the quarter ending September 30, 1988, but had for the quarter ending December 31, 1988.

Group 5. Lender accounts for which the Department had processed a request for special allowance payments for the quarter ending September 30, 1988, but had not for the quarter ending December 31, 1988.

Group 6. Lender accounts for which the Department had processed requests for special allowance payments for both quarters ending September 30, and December 31, 1988, but not for one or more of the first three quarters in 1989.

Group 7. Lender accounts for which the Department had processed requests for five successive quarters between September 30, 1988, and September 30, 1989.

We further divided the accounts into subgroups based on the amount of Stafford loans guaranteed:

- Large volume accounts with more than $1 million during the quarter ending September 30, 1988.
- Medium volume accounts with more than $100,000 and up to $1 million of guarantees.
- Small volume accounts with $100,000 or less.

To focus our review on accounts with inconsistent billing patterns and yet sample all types of accounts, we included in the sample a greater proportion of accounts in some groups than in others. Except where we sampled all accounts in a subgroup, we randomly selected a sample of accounts in each subgroup. Table I.1 shows for each subgroup the number of accounts in the sample and in the population (accounts with loans guaranteed in the quarter ending Sept. 30, 1988).

Table I.1: Stratified Sample of Lender Accounts

Lender group (see p. 28)	Volume of loans guaranteed	Accounts: In population	Accounts: In sample
Group 1[a]	Large	5	5
	Medium	20	5
	Small	248	5
Group 2[b]	Large	23	23
	Medium	60	30
	Small	406	30
Group 3	Large	2	2
	Medium	6	6
	Small	47	25
Group 4	Large	7	7
	Medium	29	10
	Small	92	10
Group 5	Large	0	0
	Medium	18	10
	Small	95	10
Group 6	Large	46	10
	Medium	236	10
	Small	592	10
Group 7	Large	397	10
	Medium	1,838	10
	Small	4,778	10
Total		**8,945**	**238**

[a]During this period, according to Department and Georgia guaranty agency officials, the Georgia agency prepared quarterly bills for its lenders using one account number.

[b]Five-quarter period beginning October 1, 1988, and ending December 31, 1989. Each group excludes accounts in the groups listed before. The only indications of billing periods in the computer file of billing activity we obtained from the Department were processing dates and codes indicating whether the bill included a request for special allowance for the first, second, third, or fourth quarter of a calendar year. Therefore, we placed lender accounts into groups using estimates of billing periods.

We sent a questionnaire to each lender in the sample asking for the amounts of Stafford loans disbursed during the quarters ending September 30, and December 31, 1988. The questionnaire also asked for the amounts of origination fees due for the loans, how the origination fees were reported to the Department, and the amounts of any unreported origination fees for the loans. We obtained responses for 219 of the 238 accounts (92 percent). Several responses, however, were incomplete. To

estimate the results of the questionnaire for population, we weighted the results for each subgroup in the sample to reflect the size of the subgroup sample and the subgroup population using standard statistical techniques.

Although we did not independently verify all of the lenders' responses to these questionnaires, we did compare their responses with the Department's records, including billing histories. In cases where we identified inconsistencies, such where lenders indicated they submitted a bill for which the Department had no record, we contacted the lender, and in certain cases Department staff, in an effort to resolve them.

Data Limitations

In several cases, we found no indication that any origination fees had been paid, but lenders did not acknowledge unreported fees. In these cases we were unable to determine whether fees were due or whether they had been paid. We concluded that (1) the Department's records did not provide evidence that it had received fees for loans guaranteed under the sampled account and (2) lenders did not provide an indication that they had been paid in response to the questionnaire. A loan-by-loan review of these accounts, which could show whether the lenders had paid the fees, was not within the scope of this review because of resource and time limitations. In several cases, lenders said that data are not available because the lenders that made the loans no longer exist; they have merged with other lenders or were taken over by the Federal Deposit Insurance Corporation or the Resolution Trust Corporation. In several cases, lenders' staff that had responsibility for student loans had changed, and the people we contacted were unable to locate the necessary information. One lender in our sample obtained loan guarantees under one account, but said its computer system cannot distinguish between loans in different accounts.

Partly because of limitations in the Department's data systems and our resource and time constraints, we were unable to verify that the lenders that reported and paid some origination fees had reported the full amounts of fees they owed to the Department. The guaranteed amount of each loan (net of cancellations) is annually reported to the Department and is, in most cases, the amount for which origination fees are due. However, the net amounts of loans guaranteed in a lender's account during a given period and the amounts disbursed in that period can differ greatly. These differences can result simply from underreporting of disbursements or from other reasons, including:

- Lenders disbursed many loans in two or more installments over more than one quarter, so they did not disburse the entire amount of loans guaranteed in one quarter.
- Some lenders obtained loan guarantees in one quarter and made no disbursements of these loans until a later quarter.
- Some lenders obtained guarantees for loans using one account number and recorded disbursements of the loans using another.
- Some lenders obtained guarantees and disbursed loans using one account number and submitted quarterly bills using another.
- Some lenders partially disbursed loans using one account number and made other disbursements of these loans using another.

Because of these and other practices, the Department lacks sufficient data to estimate adequately or determine the amounts of Stafford loans disbursed and origination fees due. Thus, the Department does not know whether all origination fees are paid, and we are unable to provide such assurance for lenders in our sample. Department officials plan to include some needed data, such as dates and amounts of disbursements, in its National Student Loan Data System, scheduled for implementation in 1993.

Sample of Stafford Loans

To determine how long lenders held origination fees before they reported or paid them to the Department, we selected a random sample of 200 Stafford loans guaranteed in fiscal year 1989. As with the survey of lender accounts, we drew the sample from the Stafford student loan data tape (also known as the tape dump) for September 30, 1989. The sample of loans represented the population of about 3.4 million loans guaranteed in fiscal year 1989.

We surveyed the 136 lenders identified by Department records as the current holders of the 200 loans. We asked the lenders when they disbursed the loans and whether origination fees had been reported to the Department. To help identify which of the lenders' quarterly bills included the fees, we asked them for the date they submitted the bill to the Department and the total amount of origination fees reported in the bill. We received responses for all 200 loans. From the responses, we obtained sufficient data for 181 loans to estimate the potential cost savings that could result from more prompt payment of origination fees.

To verify the accuracy of lenders' responses, we compared their answers with responses to a separate survey we sent to the 37 guaranty agencies that guaranteed the sample loans. We asked the agencies when the lenders

disbursed the loans and when the agencies received their insurance premiums. We also checked whether the date lenders said they submitted bills to the Department appeared reasonable when compared to the date of receipt shown in Department records. In cases where we found inconsistent responses, we contacted originating lenders, servicers, guaranty agencies, and the current holder to resolve the discrepancies.

When Origination Fees Are Received

To calculate how long lenders held origination fees, we determined when the Department first had use of the funds. The law states that origination fees are to be deducted from interest subsidies earned by lenders. Thus, Department officials said that the Department receives origination fees at the time they are offset against subsidy payments to lenders. For our analysis, therefore, the Department has use of origination fee funds starting on the date the Department pays lenders interest subsidies less the amount of fees due.

The Department provided us the dates it paid lenders' interest subsidies for the quarters in which lenders reported origination fees for loans in the sample. Normally these dates are in the Department's computer system and are readily available. However, at the time of our analysis, the computer system was being modified and was unable to provide this information. Consequently, Department officials retrieved these dates for us manually from Department records.

Determining the Number of Days Lenders Held Origination Fees

Often origination fees were offset against interest subsidies in the lenders' bill that reported the fees. We estimated the number of days lenders held the fees by calculating the time between loan disbursement and the date the Department paid lenders interest subsidies.

Sometimes, however, the amount of origination fees a lender reported in a bill exceeded the amount of interest subsidies, so a portion of the fees remained outstanding—unpaid to the Department. The lender either paid the remaining portion by check or left this amount to be offset against interest subsidies requested in a later bill. We considered that portion of the fees paid when the Department would have paid the interest subsidies, had payment been due. We estimated when payment would have occurred using the average number of days between the Department's processing of lenders' bills and its payment of the subsidies. When the lender paid the fees by check, we calculated the number of days the lender held the fees using the date the Department received the lender's check. When the

lender maintained a balance of unpaid fees to be offset in a later quarterly bill, we used the date the Department paid the subsidies requested in the later bill to determine the number of days the lender held the remaining fees.

Sometimes the Department offset all the origination fees reported in a quarterly bill, yet the bill did not result in a payment because the lender had an outstanding balance of origination fees from previous billings. In such cases the Department applied the interest subsidies first to fees reported in the bill, and applied the remaining subsidies to the previous balance of origination fees. Here again, we calculated the time the lender held the origination fees by estimating when payment would have occurred using the average number of days between bill processing and payment of subsidies to lenders.

Calculating Imputed Interest Costs

We calculated the amounts of imputed interest cost incurred while lenders held origination fees by estimating how much it cost the government to borrow funds to replace this revenue. To do this, we multiplied the amount of origination fee due for each disbursement by the number of days the lender held the fee and the daily federal cost of borrowing at the time of disbursement. We determined the interest cost incurred on each loan disbursement, then summed them to determine the cost for each loan.

We calculated the imputed interest cost of collecting origination fees within 15 days of disbursement the same way, substituting 15 days for the number of days the lender held the fees. On average, lenders held origination fees 131 days. We used the quarterly average bond-equivalent yield for 91-day Treasury bills for the quarter in which lenders collected the fees from borrowers. Using the quarterly average of 182-day Treasury bill yield would have resulted in a slightly higher estimate of the imputed interest cost. We recognize that the amount that could be saved each year by collecting origination fees earlier depends, in part, on the federal cost of borrowing at the time of loan disbursement. In future years, the cost savings could be lower or higher than indicated by our sample of loans.

Calculating One-Time Budgetary Savings

During the first year that a 15-day payment requirement goes into effect, the Department would receive some origination fees in that fiscal year that otherwise would be received in a later year. This can be illustrated by an example. Since the Department receives origination fees about 131 days

after disbursement, a 15-day pay requirement would mean that, on average, fees collected on disbursements made between May 22 (131 days before the end of the fiscal year) and September 15 (15 days before the end of the same fiscal year) would be received in the current fiscal year, rather than the next. For fiscal year 1989, we estimate that origination fees due on these loan disbursements totaled $101 million.

Other Fees Collected on Guaranteed Loans

We asked the 37 agencies that guaranteed the loans in our sample how long after disbursement they received insurance premiums. Thirty-five agencies (a 95-percent response rate), which guaranteed 195 of the 200 sample loans, answered. We determined how long after a loan disbursement the agencies received their insurance premiums by taking the difference between the date of disbursement and the date the agencies said that they received the fees.

We examined federal regulations to determine when the Departments of Veterans Affairs and of Housing and Urban Development require lenders to pay funding fees and mortgage insurance premiums, respectively. At these departments we spoke with officials and obtained documentation to determine the average number of days after loan disbursement they receive the fees.

Data on the Collection of Origination Fees

Table II.1: The Department's Receipts of Stafford Loan Origination Fees
(Data for Fig. 1.1)

Dollars in millions

Fiscal year	Receipts of origination fees[a]
1981	$35
1982	77
1983	279
1984	311
1985	337
1986	336
1987	322
1988	341
1989	341
1990	395

[a]According to the Department, fee receipts are estimates based on loan disbursement estimates.

Table II.2: Lenders That Did Not Report Origination Fees for Stafford Loans Guaranteed in the Quarter Ending September 30, 1988

Dollars in millions

Indication whether origination fees were paid	Estimated number of accounts	95-percent confidence interval	Net amount guaranteed
Department records indicate that fees were paid	7,708[a]	6,771 to 8,645	$4,244
Lender provided explanation[b]	223	95 to 351	128
Lender acknowledged unreported fees for loans disbursed in the second half of 1988[c]	531	13 to 1,467	8
No indication in Department records or from lenders that fees were paid[d]	483	345 to 621	28

[a]Department records show that the lenders reported some origination fees in bills for the quarter ending on either September 30 or December 31, 1988, and the lenders did not acknowledge any unreported fees for that period.

[b]The lenders (or their loan servicers) indicated that either (1) fees for loans disbursed in the account were reported using another account, or other parties were responsible for reporting origination fees (32 sampled accounts representing 157 accounts in the population); (2) none of the loans guaranteed in the account was disbursed in the account (15-sample account representing 47 accounts in the population); or (3) the lender reported the origination fees in a quarterly bill for the account, but the Department processed the bill using another account or lacked a record of the bill (2 sample accounts representing 3 accounts in the population).

[c]Ten of the 13 sampled lenders in this group (representing about 48 accounts in the population) said that they had reported none of the fees owed for loans disbursed in the second half of 1988. Three of the lenders (representing about 483 accounts in the population) acknowledged reporting fees for some, but not all, loans.

[d]Department records indicate origination fees were reported for neither the quarter ending September 30, 1988, nor the quarter ending December 31, 1988. Also, these lenders either (1) did not respond to our survey (14 sample accounts representing 181 accounts in the population); (2) indicated in their response to the survey that data are not available on the amounts of unreported fees for loans disbursed in the second half of 1988 (14 sample accounts representing 162 accounts in the population); or (3) did not respond to questions in the questionnaire concerning the amount of any unreported origination fees for loans disbursed in either the quarter ending September 30, 1988, or the quarter ending December 31, 1988 (22 sample accounts representing 139 accounts in the population).

Table II.3: When the Department Received Origination Fees for a Sample of 200 Stafford Loans (Data for Fig. 2.1)

Days after loan disbursement	Number of fees[a]
0-30	0
31-60	16
61-90	54
91-120	53
121-150	59
151-180	25
181-210	23
211-240	12
241-270	8
Over 270	7
Department had not received origination fees as of June 30, 1991	6
Lender either could not confirm that fees had been paid or did not identify in which bill fees were reported	23

Note: Data exclude 18 loans for which no origination fees were due because these loans either were canceled or were non-federally subsidized loans.

[a]One fee per loan disbursement.

Table II.4: Average Time for the Department to Collect Origination Fees From Lenders (Data for Fig. 2.2)

Time period	Average number of days	95-percent confidence interval
Loan disbursement to end of quarter	42	38 to 46
End of quarter to Department's receipt of lender's bill	63	54 to 71
Department's receipt of bill to receipt of origination fees[a]	27	23 to 30
Total days from disbursement to receipt of origination fee	131[b]	119 to 143

Note: Based on data obtained for 163 of the 200 Stafford loans in the sample.

[a]We identified the date the Department received origination fees using (1) the date it sent payment to the lender for interest subsidies less origination fees, (2) the date it received a check from the lender, or (3) the estimated date it would have deducted the fees from a payment to the lender had a payment been due.

[b]Due to rounding, the total is not equal to the sum of the averages.

Comments From the Department of Education

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

MAY 20 1992

Linda G. Morra, Director
Education and Employment Issues
Human Resources Division
U.S. General Accounting Office
Washington, DC 20548

Dear Ms. Morra:

Thank you for the opportunity to review the General Accounting Office (GAO) draft report, "Stafford Student Loans: Prompt Payment of Origination Fees Could Reduce Costs," GAO/HRD 92-61, issued April 17, 1992.

Enclosed is the Department of Education's (ED) response to the draft report.

If you have any questions, please contact John Rudley, Special Assistant to the Deputy Assistant Secretary for Student Financial Assistance, at 708-8391.

Sincerely yours,

Carolynn Reid-Wallace

Carolynn Reid-Wallace

Enclosure

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-5100

General Accounting Office (GAO) Draft Report,
"Stafford Student Loans: Prompt Payment of
Origination Fees Could Reduce Costs,"
GAO/HRD 92-61, issued April 17, 1992

Overview

The Department of Education (ED) and the Office of the Inspector General (OIG) have recognized that the process for collection of origination fees requires improvement. To that end, steps have been taken to enhance our ability, under current law, to identify and collect all fees owed. Briefly described, they are:

- When a previously active lender does not bill ED for interest and special allowance benefits (and thus offset origination fees) for 6 quarters, the lender is contacted to determine whether there are origination fees outstanding. The contact involves a letter and a follow-up telephone call within 30 days if no response is received. The contact frequency was recently changed to 4 quarters.

- A bulletin was sent to all lenders in September 1991 which clarified the lenders' responsibility to send ED a check for any origination fees which are not offset by an interest and special allowance billing.

However, we recognize that stronger controls and procedures could be implemented and have addressed the recommendations to the Congress accordingly.

Recommendation 1: Repeal the provision in section 438(c)(1) of the Higher Education Act, as amended, that requires the Department of Education to collect origination fees by offsetting them against interest subsidy payments to lenders.

ED Response: The Department concurs with recommendation 1.

Recommendation 2: Require the Secretary of Education to collect within 15 days of disbursement the 5-percent origination fee, payable to the federal government, for every Stafford Student Loan disbursement.

ED Response: We concur with the intent of this recommendation to collect loan origination fees much earlier than the 210 days cited in the General Accounting Office (GAO) report; however, the recommended procedure to establish a new procedure utilizing lock boxes and a 15-day collection cycle significantly increases costs and requirements to an already complicated processing environment.

We propose using the current monthly reporting and collection procedures that exist between lenders and guarantee agencies and the Department. This simpler and less costly approach would require the guarantee agency to collect loan origination fees from the lenders as part of the normal business cycle. By incorporating the collection of the origination fee into the existing monthly reporting cycles of guarantee agencies, the collection period can be reduced from 210 days to approximately 30 to 45 days.

If our proposal is implemented agencies could be required to pay origination fees to ED at least monthly, in the amount of 5 percent of net loans guaranteed and either report these fees on their monthly reinsurance billings or submit a separate report of the fees. This approach has a number of advantages:

- Guarantee agencies already have automated systems in place to collect fees (i.e., guarantee premiums) for each loan disbursement and are staffed to work with lenders on the collection of fees and resolution of errors. It should not be very difficult to modify these systems to incorporate the collection of origination fees.

- The costs to ED of implementing this approach would be much lower because we would only have to work with 54 guarantee agencies instead of needing to track data and resolve errors for 10,000 lenders. Also, this approach would be considerably easier to audit.

- Lenders would only need to write one check and coordinate with one entity, the guarantee agency, for the payment of all student loan fees. This would decrease confusion and administrative costs for lenders.

- Agencies would have incentive not to underreport the amount of loans guaranteed (in order to lessen their liability for origination fees) because it would lower the amount of the administrative cost allowance (ACA) they are entitled to. The ACA would equal 1 percent of loans guaranteed.

- Tying the fees to loan guarantees could result in earlier payment because a loan guarantee occurs earlier than a loan disbursement. For example, if we required agencies to submit origination fees monthly for all loans guaranteed on which the anticipated disbursement date is within a given month, we could expect to see the following scenario:

Loan guarantee date:	9/01/92	
Loan disbursement date:	9/20/92	(1st disbursement)
	1/12/93	(2nd disbursement)
Origination fees paid:	9/30/92	(1st disbursement)
	1/30/93	(2nd disbursement)

  In the above example, the origination fee on the first disbursement would have been paid within 10 days of disbursement and the fee on the second disbursement would have been paid within 18 days. The actual number of days from disbursement to payment would vary, but would never exceed 30 days if the fees were reported monthly.

Recommendation 3: Require the Secretary, until the National Student Loan Data System is developed, to work with guarantee agencies to ensure that the origination fees lenders collect from student borrowers are appropriately paid to the government.

ED Response: We agree with the goal of this recommendation but believe the approach explained above accomplishes the same intent. However, if this recommendation is retained in the final report, we suggest that its wording be changed to require the guarantee agencies to report to ED the amount of origination fees required from each lender for whom they guarantee loans each quarter.

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